

GROSS PROFIT METHOD OF ESTIMATING INVENTORY

STEP 1

| | |
|--|---------------------|
| Beginning Inventory, Jan. 1 | \$238,750.00 |
| <i>Plus</i> net purchases from Jan. 1 to Jan. 31 | + <u>125,450.00</u> |
| <i>Equals</i> cost of merchandise available for sale | <u>\$364,200.00</u> |

STEP 2

| | |
|--|--------------------|
| Net sales for Jan. 1 to Jan. 31 | \$206,250.00 |
| <i>Times</i> previous year's gross profit percentage | × <u>48.00%</u> |
| <i>Equals</i> estimated gross profit on operations | <u>\$99,000.00</u> |

STEP 3

| | |
|--|---------------------|
| Net sales for Jan. 1 to Jan. 31 | \$206,250.00 |
| <i>Less</i> estimated gross profit on operations | − <u>99,000.00</u> |
| <i>Equals</i> estimated cost of merchandise sold | <u>\$107,250.00</u> |

STEP 4

| | |
|--|---------------------|
| Cost of merchandise available for sale | \$364,200.00 |
| <i>Less</i> estimated cost of merchandise sold | − <u>107,250.00</u> |
| <i>Equals</i> estimated ending merchandise inventory | <u>\$256,950.00</u> |

Ending Inventory to
Income Statement



GROSS PROFIT METHOD OF ESTIMATING INVENTORY

Winning Edge Income Statement For Month Ended January 31, 20--

| | | | % of Net Sales |
|---------------------------------------|---------------------|---------------------|----------------|
| Operating Revenue: | | | |
| Net Sales | | \$206,250.00 | 100.0 |
| Cost of Merchandise Sold: | | | |
| Beginning Inventory, January 1. | \$238,750.00 | | |
| Net Purchases | 125,450.00 | | |
| Merchandise Available for Sale | <u>\$364,200.00</u> | | |
| Less Est. Ending Inv., January 31 ... | <u>256,950.00</u> | | |
| Cost of Merchandise Sold | | <u>107,250.00</u> | 52.0 |
| Gross Profit on Operations | | \$ 99,000.00 | 48.0 |
| Operating Expenses | | <u>79,200.00</u> | 38.4 |
| Net Income | | <u>\$ 19,800.00</u> | 9.6 |